APRIL 4, 1988 THREE DOLLARS SEVENTY-FIVE CENTS

C3950-1
3/24/88

Forbes

SILICON COMPILING

CARVER MEAD'S POWERFUL VISION

The current transition in electronics promises a 10,000-fold increase in the cost effectiveness of computing in the next decade and 10 billion transistors on a single piece of silicon.

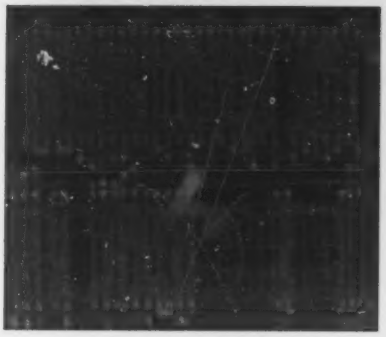
These developments open opportunities for entrepreneurial creativity and invention unprecedented in the entire history of technology. The new opportunities tend to favor the creative strengths of the U.S.

Yet the total capital cost is under $100,000, or one-thousandth the cost of the state-of-the-art wafer fabrication plant that previously set the price of entry to the industry.

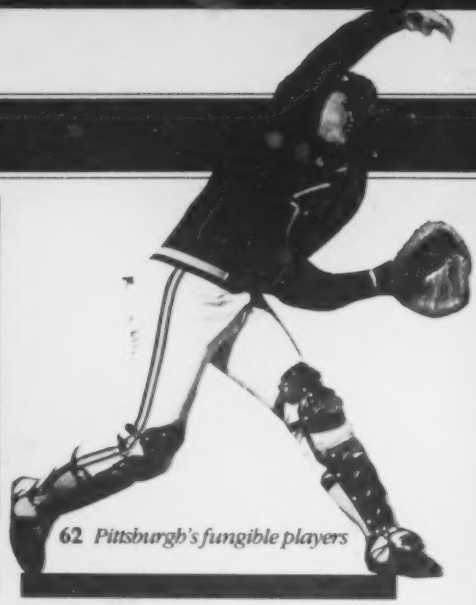
Rather than trying to keep out Japanese chips or raising their prices, American entrepreneurs should be combining foreign memories and other commodity devices with an ever rising tide of domestic designs.

0 74820 08300

Forbes



34 *Westinghouse's surprising strengths*



62 *Pittsburgh's fungible players*

APRIL 4, 1988
VOLUME 141
NUMBER 7

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 156 AND 157

COVER STORY

88 You Ain't Seen Nothing Yet
By George Gilder
Hearken to the startling message of Carver Mead, professor of computer science at the California Institute of Technology. We are, this great scientist says, on the verge of a burst of productivity ideally suited to American ingenuity and destined to transform the world.

COMPANIES

34 Westinghouse Electric
By Janet Novack
Believe it or not, Westinghouse is an $11-billion-a-year company. Quick: What does it do for a living?

36 Compact Video
By Allan Sloan
Ronald Perelman has made an enormous fortune for himself and for public shareholders. But then there's Compact Video.

39 Canton Industrial
By Steve Weiner and Janis Bultman
The effort to save the company was such an inspirational human interest story that a lot of the media bought it. Trouble is, it wasn't true.

56 The Up & Comers: San Francisco Grocery Express
By Fleming Meeks
Mary Garvey wagered over a million bucks on the proposition that busy people will pay premium prices for groceries in return for saving time.

62 The Up & Comers: The Pittsburgh Pirates
By Allan Dodds Frank
Baseball owners usually break their hearts trying to buy a pennant. The owners of the Pittsburgh Pirates are going at it another way—assembling the low-cost producer.

79 Abitibi-Price
By Ralph King Jr.
Doing business in Canada is no breeze. Consider Abitibi-Price's inability to capitalize on the boom in newsprint.

87 Standard Commercial
By Edward F. Cone
Probably more money has been lost than made in diversification by big companies. Here's a little company that could teach them all a lesson in how to do it right.

104 Amax
By James Cook
From Amax' rosy glow these days, you would never know the company was at death's door a few years back.

INDUSTRIES

80 Air Freight
By Edwin A. Finn Jr.
Today, a lot more than computers and blue jeans are going to market in jets. But where are the profits?

INTERNATIONAL

38 Rajiv's Mounting Woes
By Pranay Gupte
India, for all its troubles, has been a modest borrower and has kept inflation under relative restraint. Is it now about to go the way of Latin America—and for similar reasons?

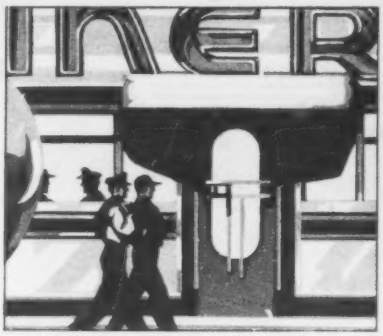
49 A Tulip Wilts In Stockholm
By Peter Fuhrman
Thousands of Swedish investors wish that they had never heard of Cornell University professor Thomas Gold and his theories about oil and gas.

PROFILES

94 Attorney Arthur Mathews "If You Don't Ask, You Don't Get"
By Richard L. Stern
About to be indicted for stock fraud? Is the Securities & Exchange Commission after you? Art Mathews at your service.

INVESTING

138 The Money Men: Don't Stay With The Crowd
By Matthew Schifrin
Deltec got into Latin American debt early and got out early. If it gets back into foreign lending, says founder Clarence Dauphinot Jr., it will probably be when everyone else is trying to get out.



80 *Heavy lifting for the 21st century*

107 *High-tech pokeys*

139 *Gauging tax-exempt risks*

139 The Funds: High Road Or Low Road?
By Ruth Simon
Do high-yield muni funds outperform safer muni funds? Not with any consistency. You may be taking considerably more risk for only slightly better return.

143 Statistical Spotlight: Green Chips
By Kathleen Healy
With institutions chasing the S&P 500 and speculators the small o-t-c stocks, maybe the best place to be is in the middle.

154 Streetwalker
Allen Group; U.S. Shoe; West Co.; Watts Industries; United Insurance Cos.

TAXING MATTERS

71 The Gang That Couldn't Shoot Straight
By Laura Saunders
Thrifts are not only broke, but they bungled a tax writeoff and the IRS is coming after them for money that they don't have.

ON THE DOCKET

74 Justice Delayed
By Deirdre Fanning
The average civil case in Los Angeles County takes five years to get to trial. The county bar association is so angered that—what else?—it's suing.

NUMBERS GAME

78 High Dudgeon In The Ivory Tower
By Penelope Wang
Aren't depreciation charges on fixed assets at the core of responsible accounting? Not according to many college administrators.

SCIENCE & TECHNOLOGY

106 "We Sell Everything"
By Gary Slutsker
What happens when a high-tech engineering company is taken over by traveling salesmen? In the case of Memorex, a higher operating margin.

107 Bailiff, Beam Up The Defendant
By Gale Eisenstodt and Gary Eisler
How to cut the cost of keeping criminals in the pokey? One way would be to ease prisons into the 20th century.

MARKETING

112 Sob For The Sisters
By Eric Schmuckler
Women's service magazines are in an extraordinarily nasty fight.

PERSONAL AFFAIRS

116 Nagonomics I
By Stanley W. Angrist
What do you get when you send a pair of economics professors to the racetrack? Right—an expensive book and yet another system for beating the ponies. Sort of. Also: Getting top dollar when you sell your business; Loose Ends; Sotheby's Art Market Trends.

CAREERS

124 The Newlyweds' Game
By Fleming Meeks
In the course of losing her job, Lynne Lumsden found a husband and bought a company. That was the easy part.

DEPARTMENTS

6 Side Lines
8 Follow-Through
12 The Informer
14 Readers Say
17 Fact and Comment
22 Other Comments
25 Fact and Comment II
159 Flashbacks
160 Thoughts

COLUMNISTS

145 Ben Weberman
146 Susan Lee
147 Kenneth L. Fisher
148 Mark Hulbert
149 James Grant

MONEY & INVESTMENTS

29 What's Ahead For Business
30 The Forbes Index
135 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

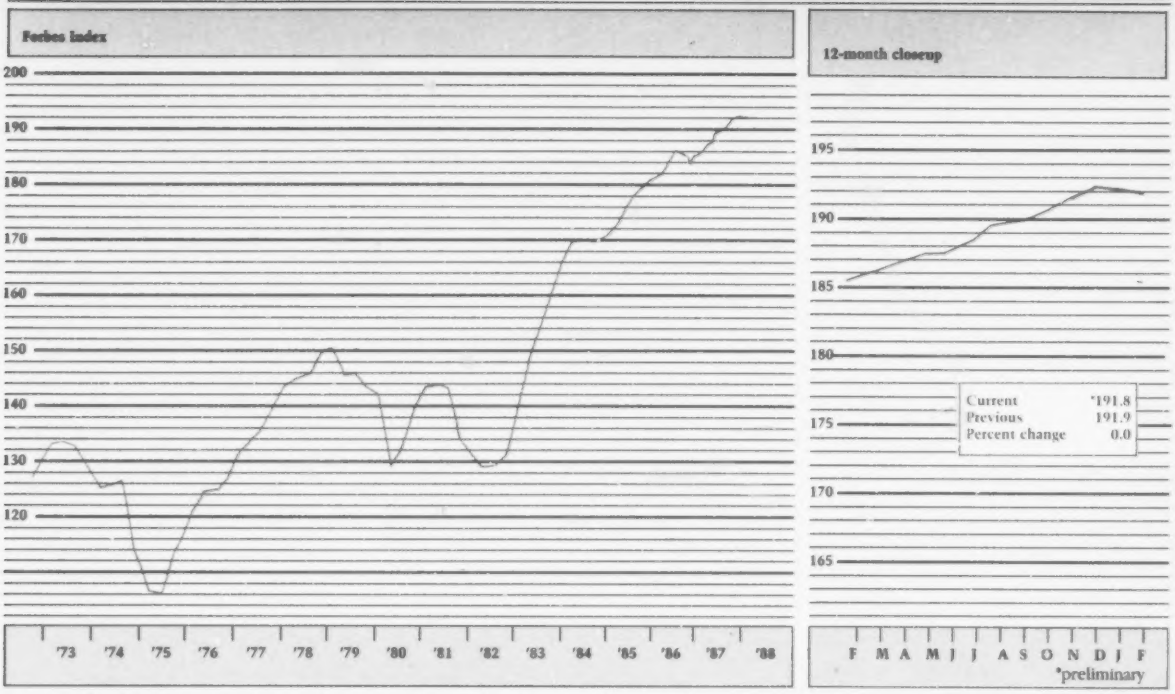
128 **Marina v.N. Whitman,** *GM*
128 **Joseph Papp,** *impresario*
132 **Bill Naito,** *developer*
132 **Holger Bahl,** *banker*

Cover photograph by Jon Brenneis

April 4, 1988 Volume 141 Number 7 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription $45 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

Copyright © 1988 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

The Forbes Index



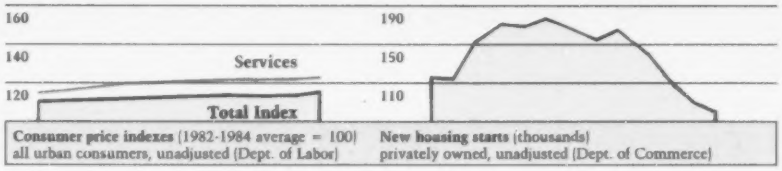
An unrefreshing pause. The Forbes Index dipped 0.1% in January, the first decline in a year. Nevertheless, the fundamentals continue to hold up well. Retail sales were up 0.6% in February, while the unemployment rate, stuck at 5.8% for two months, fell 0.1% point, to 5.7%, a record low for the Eighties. The January figure for consumer installment credit hit $617.5 billion, a new high. Revised figures show that manufacturer's new orders fell 1.5% in January.

The pessimism generated by October's stock market crash has abated for many, with the exception of those who work on Wall Street. While the economy, now in its sixth year of expansion, could hardly be called exciting, hard times do not appear to be just around the corner.

The Forbes Index Components

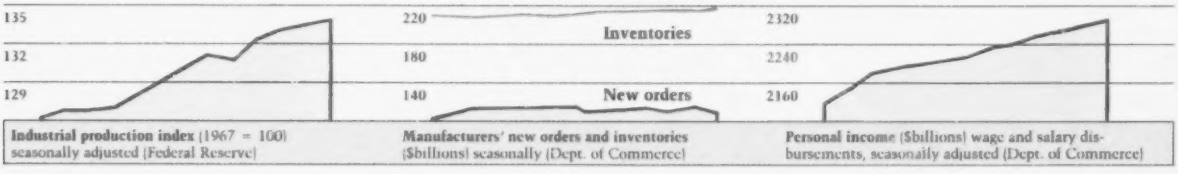
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)

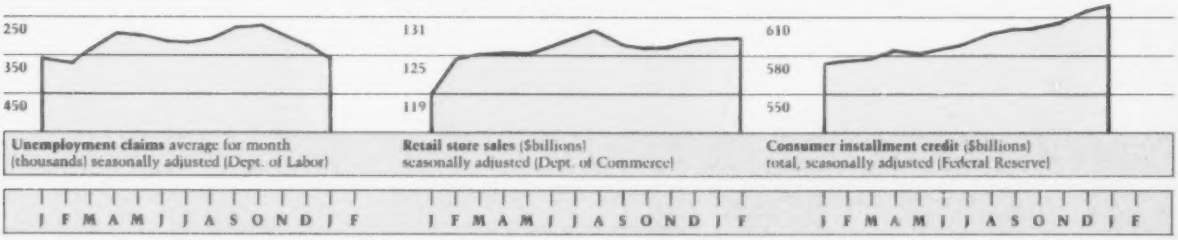
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

Sotheby's Art Market Trends

Index sectors	Feb 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years % change	Five years average annual % change
Old Master paintings	373	373	329	290	210	nil	+13.4	+28.6	+77.6	+12.2
19th-century European paintings	333	323	279	249	184	+3.1	+19.4	+33.7	+81.0	+12.6
Impressionist & Post-impressionist art	723	723	490	380	267	nil	+47.6	+90.3	+170.8	+22.0
Modern paintings (1900-1950)	757	757	512	364	245	nil	+47.9	+108.0	+209.0	+25.3
Contemporary art (1945 onward)	609	609	551	497	342	nil	+10.5	+22.5	+78.1	+12.2
American paintings (1800–pre-WWII)	871	871	698	667	450	nil	+24.8	+30.6	+93.6	+14.1
Continental ceramics	407	331	290	284	266	+23.0	+40.3	+43.3	+53.0	+ 8.9
Chinese ceramics	581	581	526	486	440	nil	+10.5	+19.5	+32.0	+ 5.7
English silver	388	381	343	314	209	+1.8	+13.1	+23.6	+85.6	+13.2
Continental silver	220	220	201	181	139	nil	+ 9.5	+21.5	+58.3	+ 9.6
American furniture	469	469	451	333	239	nil	+ 4.0	+40.8	+96.2	+14.4
French & Continental furniture	319	319	299	273	234	nil	+ 6.7	+16.8	+36.3	+ 6.4
English furniture	657	657	523	419	267	nil	+25.6	+56.8	+146.1	+19.7
Aggregate index*	517	514	409	344	256	+0.6	+26.4	+50.3	+102.0	+15.1

Basis: 1975 = 100 ($).

©Sotheby's 1988

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Monthly highlights

The recent jewelry auction in St. Moritz attracted much interest; jewelry sales are considered a barometer of art market sentiment. The three-day event brought a total of $20 million, a record for a sale in this location. The star lot was the Ashoka diamond, a 41.37-carat D-flawless, oblong cushion-shaped stone. Made into a ring by jeweler Harry Winston, the diamond sold for $3.5 million. A 62-carat sapphire set an auction record for a colored stone, at $2.56 million.

Monaco was the other major European center of activity last month, and results there were inconsistent. Sales of Old Master and 19th-century European paintings, drawings, French furniture, works of art and modern illustrated books netted over $7.6 million. But only an average of 76% (by value) of the works were sold. By contrast, in Rome a $2.5 million sale of Continental furniture, works of art and paintings virtually doubled expectations, with over 90% sold.

Thirty-four paintings by Noel Coward, the songwriter and dramatist, in London realized over $1.3 million, compared with the high presale estimate of $900,000.

Sotheby's

A documentary signed and dated Vincennes tea bowl, 1749, sold by Sotheby's London for $35,000. Shown here approximately full size.

Index highlights

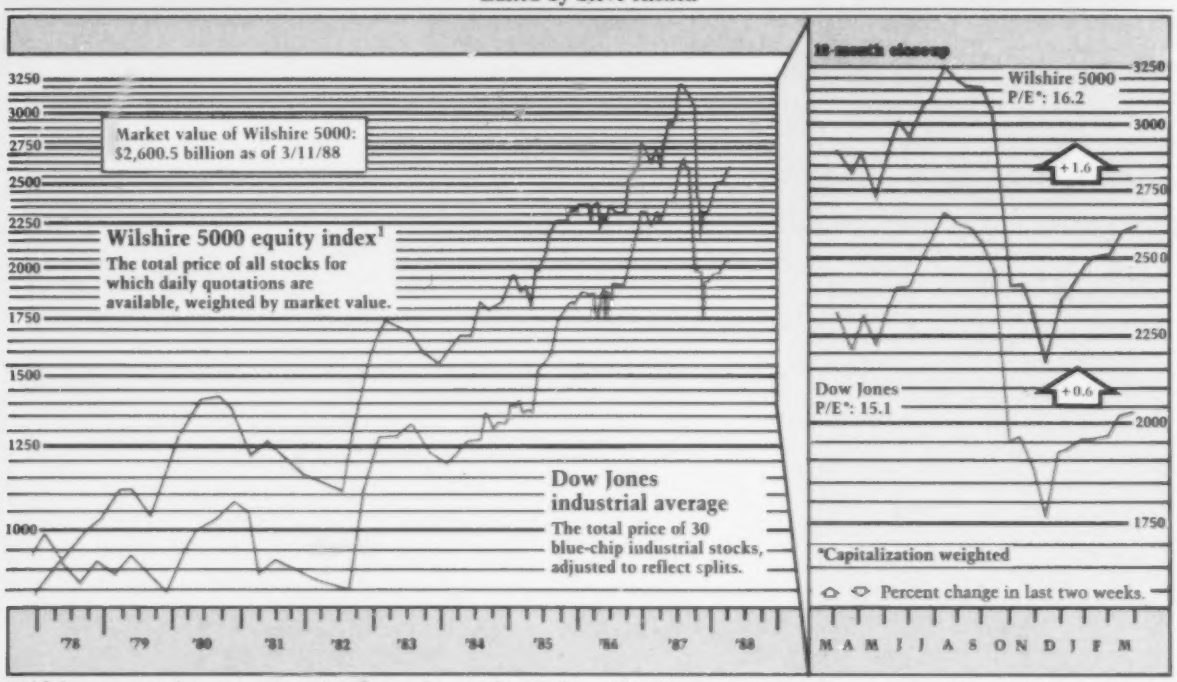
New York sales of 19th-century paintings saw collectors willing to pay high prices for high-quality works. Demand was healthy for Danish and Oriental works, while Japanese buyers competed strongly for Barbizon paintings and also for works by Turner. A notable feature was the sharp increase in interest for Spanish and Italian works, with German genre and landscape paintings also faring well.

In London, sales of English silver—a sector dominated by trade interest—continued to produce buoyant results. The star attractions were two George II ambassadorial wine coolers, made in 1727 as part of a service for the fourth Earl of Chesterfield. Among the most important English silver ever brought to auction, the coolers fetched over $831,000—well above the presale estimate of $540,000.

Continental ceramics in the latest sales in London were strong. Among the most interesting lots, a 1¾-inch Vincennes tea bowl, dated 1749 with a color reference code, realized $35,000, compared with an estimate of $27,000. The star lot, a mid-18th-century 76-piece Meissen part dinner and dessert service, fetched $97,400.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2,600.5 billion as of 3/11/88
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3250
3000
2750
2500
2250
2000
1750
1500
1250
1000
'78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88
18-month closeup
Wilshire 5000 P/E*: 16.2
+1.6
Dow Jones P/E*: 15.1
+0.6
*Capitalization weighted
Percent change in last two weeks.
M A M J J A S O N D J F M

Midsize companies are recovering from the crash. While the blue-chip Dow has received most of the attention since the October collapse, it is the middle-tier companies that have made the greatest gains. Bob Waid of Los Angeles-based Wilshire Associates reports that from the beginning of November to the end of February, firms with market capitalizations between $36 million and $700 million were up an average 20.4%, vs. 15.8% for stocks with larger capitalizations and 8.2% for smaller stocks. This bias away from larger companies held over the last four weeks as the Dow industrials gained only 2.6%, the NYSE 3.2%, the Amex 6.9% and the Nasdaq 6.3%. (For more on midsize companies, see p. 143.)

Meanwhile, corporate America continues to report strong quarterly earnings. Although the Wilshire index rose 1.6% in the last two weeks, the latest 12-month price-to-earnings multiple on the Wilshire fell 4.1%, to 16.2.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.6	1.0	2.6	3.2	6.9	6.3
in last 52 weeks	–10.0	1.0	–9.9	–9.6	–10.9	–13.1

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.2	10.7	12.3	2.0	10.5	4.5	2.0	11.3	10.3	4.6	5.8	12.9
in last 52 weeks	–5.6	12.3	14.1	2.8	–7.2	–9.4	–4.8	20.3	14.8	–0.4	–2.4	12.8

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

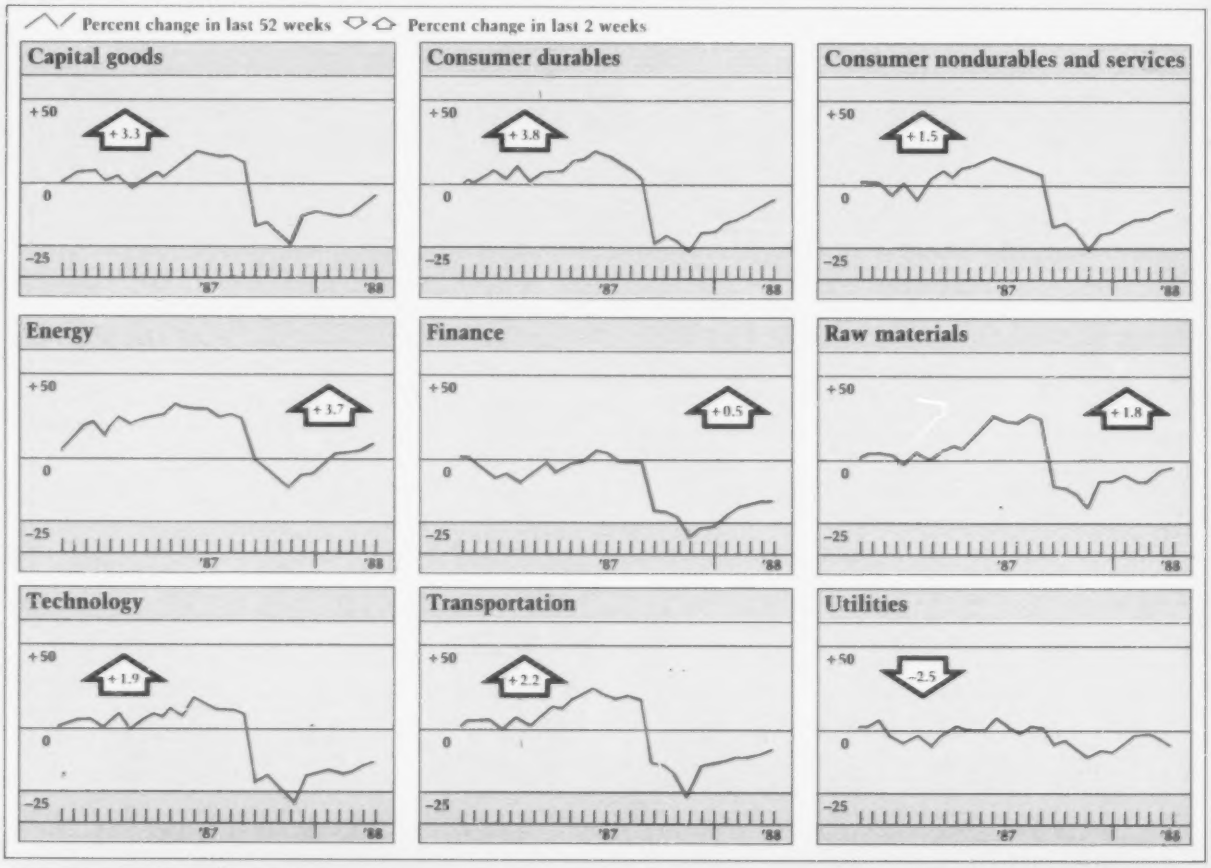
Note: All data for periods ending 3/11/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

Foreign investors continue to capitalize on the increased value of their currencies against the dollar. One reason the consumer durables sector rose 3.8% over the past two weeks is the pending $1.85 billion offer for Firestone from Italy's Pirelli Group SpA. Among other foreign takeover attempts this year are Hoffmann-La Roche's play for Sterling Drug (which is going to be acquired by Eastman Kodak instead) and the Hachette SA play for educational publisher Grolier Inc.

Domestic buying pressure has been moderated by a slight runup in interest rates. Utilities, for example, fell 2.5% over the last two weeks. But most other sectors are doing well. Energy and capital goods were up 3.7% and 3.3%, respectively, over the past two weeks.



What the Analysts Think

Raw material and consumer durables companies enjoyed slight increases in average 1988 earnings estimates. The other seven sectors, especially finance and capital goods, saw declines. Over the last two weeks the earnings forecast for The Forbes Sales 500 fell slightly. This group is now selling at 10.9 times projected 1988 profits.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.56	15.0
1988 estimates	3.53	10.9
1989 estimates	3.99	9.8

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$2.92	11.7	0.64%	1.40%
2	Consumer durables	3.83	13.4	0.20	0.61
3	Energy	2.96	13.3	–0.04	0.30
4	Transportation	2.47	12.3	–0.04	–1.39
5	Technology	2.83	11.9	–0.23	–0.50
6	Consumer nondurables	2.54	13.1	–0.26	–0.39
7	Utilities	3.04	9.6	–0.27	–0.36
8	Capital goods	2.53	14.9	–0.34	–0.09
9	Finance	3.55	7.7	–0.73	–1.72

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/11/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

Hungary and selling them back to the borrowers when they refinanced. He also actively traded telephone and utility bonds with buddies Salim Lewis of Bear, Stearns and Gustave Levy of Goldman, Sachs.

Dauphinot expects to get another crack at this kind of trading—provided the banks are willing to take the 38% to 96% writedowns necessary to unload their bad Latin American loans on the public. He sees value in some of the paper. "I think that Mexico is doing the right things," says Dauphinot. "They have done more than any other Latin American nation to handle inflation. They have been very constructive about investment from abroad. Mexico is also an interesting play on oil and gas over the next five years."

After World War II Kidder sent Dauphinot to Rio de Janeiro to drum up a South American capital market. Soon several Wall Streeters, including Gordon, Lewis and Levy, staked Dauphinot to $150,000 to form Deltec Panamerica SA.

Deltec did a brisk business as intermediary between Latin debtors and large U.S. and European banks. By the early 1970s Deltec was responsible for participating in and syndicating around $50 million a month in Latin and Eastern European loans. Sometimes by going door to door in wealthy South American neighborhoods, Deltec raised several hundred million dollars in equity capital for electric utilities, Brazil's largest department store, Kaiser Steel's Argentinean operations and an auto factory. Deltec also made good money buying up distressed, European-owned South American sugar and rail companies, restructuring operations, and reselling the firms to domestic investors.

After merging a Deltec subsidiary in 1969 with NYSE-listed IPL Inc., Dauphinot controlled a meat and banking empire with cattle ranches and slaughterhouses in North and South America and Australia, and investment branch offices that spanned the globe from Bogotá to Hong Kong. The idea was to sell the foreign cattle and real estate to local investors.

But Dauphinot didn't move fast enough. In 1970, as Deltec was about to close on the sale of its Argentinean meat-packing operations, a military junta confiscated the property as well as real estate, food processing, sugar producing and financial assets, $125 million worth all told. Deltec is still hoping for a restitution settlement.

The government's victims weren't only the foreign capitalists. Argentina's long history of economic chaos has turned its once rich and promising agricultural economy stagnant and crippled it with debt. The expropriation brought this home to Dauphinot, but not to the commercial banks that followed him into Latin America.

Not long after Deltec's Argentina troubles surfaced, so did a squeeze on its Latin lending. During the 1970s Deltec's own commercial bank clients invaded Latin America and no longer needed Deltec's intermediary services. "The spreads became much too thin, and the bankers were making huge long-term commitments," says Dauphinot.

By 1978 Deltec had completely pulled out of Latin lending and begun liquidating the public entity in order to refocus its business on merchant and investment banking. The closely held parent, Deltec Panamerica, invested some of its $28 million share of the liquidation proceeds in special situations, such as securities of bankrupt and troubled REITs.

Deltec's current strategy is to take sizable positions in small companies, not enough to have to pay a premium in a tender offer but "enough so that management will take you seriously," says Arthur Byrnes, Deltec's New York-based head of U.S. operations. Lately Deltec has been eyeing oil and gas companies, the bankruptcy bonds of LTV and Public Service Co. of New Hampshire, and savings and loans in the U.S. "We believe there are too many independent thrifts in the U.S.," says Byrnes. "There are tremendous economies of scale to be gained through mergers." One of its selections: Home Federal Savings & Loan of San Francisco, selling at 90% of book value and 4.6 times earnings. Deltec has 24% of Fort Collins, Colo.-based Home Federal S&L of the Rockies, which lost $645,000 in 1986 but earned $1.6 million last year after Deltec installed a new president. Deltec has since received two buyout offers for its stake.

This is global investing the way it should be practiced. You don't buy foreign stocks just because they were up a lot last year, and you don't overstay. Says Dauphinot, "If everyone else and his brother is investing where we are, we usually go into something else." ■

The Funds

Do high-yield muni funds outperform safer muni funds? Not with any consistency. You may be taking considerably more risk for only slightly better return.

High road or low road?

By Ruth Simon

LOOKING FOR A FUND with lots of tax-free income? You might be enticed by high-yield municipal bond funds, which invest in "junk" municipals—tax-exempt issues that are unrated or rated lower than BBB by Standard & Poor's or Baa by Moody's.

High risk, high reward, or so goes the thinking. The problem is that plenty of investors have jumped into these funds, which tout yields 50 to 100 basis points higher than those of general muni bond funds. There are now 26 high-yield muni funds, with $12.4 billion in assets, up from 11 funds in 1984. And with more funds chasing after a smaller supply of junk munis, says Smith Barney municipal bond analyst Barnet Sherman, "there simply is not enough good-quality, high-yield paper around."

The average high-yield muni fund delivered a total return of 0.7% over

the 12 months through January, according to Lipper Analytical Services, against 0.6% for general muni funds. This was in a period of rising interest rates—hence, falling bond prices—which hurt quality bonds more than junk. In short, it is not at all clear that the enhanced return adequately compensates for the enhanced credit risk.

But if you must buy high-yield munis, you're probably better off buying them through a fund than on your own. Telling the good deals from the rotten ones isn't easy. "It's essential to do your homework," says Peter Gordon, director of T. Rowe Price's municipal bond division. Gordon's staff of credit analysts conducts site visits before approving unrated issues, an effort beyond the reach of most investors.

Diversification is in order. "If you've got $2 billion in your portfolio and a $2 million issue defaults, it's the equivalent of a Mercedes going over a pebble," explains Smith Barney's Sherman.

High-yield funds also reduce risks by leavening their funds with higher-quality bonds. The IDS High Yield Tax-Exempt Fund, for example, has 93% of its assets in investment-grade paper; the more aggressive American Capital Tax-Exempt Trust High Yield Portfolio has just 35%.

Offsetting the higher credit risk is the somewhat lower interest rate risk. "When people want out, as in April 1987, the demand for junk is still so strong that prices only decline about half as much as for higher-quality bonds," says Michael Hardie, director of fixed-income investments for Colonial. Junk bonds' higher coupons also cushion somewhat the effect of upward spikes in rates. The lower interest-rate sensitivity cuts both ways, of course. When rates are falling and bond prices are rising—as they were in 1985 and 1986—a high-yield muni fund will underperform a general muni fund. But when bond prices fall, as they have over the past 12 months, the high-yield funds do slightly better.

Buying through a fund doesn't guarantee that you'll avoid the losers. Included in the $822 million Eaton Vance High Yield Municipal Trust are several bonds that financed an idea that, in hindsight, doesn't seem very bright: the combination hotel and home for the aged. The buildings are less than 50% occupied and the bonds worth 15 cents on the dollar. In the $348 million MFS Managed High Yield Municipal Bond Trust is a bond to finance an office building and hangars at a Colorado airport. Purchase price: $6.2 million. Value: $340,000.

Expect more of these problems. One reason: the flood of issues put out in 1985 and 1986 to beat changes in the tax law, which put the brakes on tax-exempt financing for private industry and apartment buildings. "Because of the rush to get paper out, a lot of marginal items got issued," notes Richard Lehmann, Bond Investors Association president, who expects defaults in 1988 and 1989 to exceed their 1987 highs. Some projects were never economical, Lehmann notes, and issuers are intentionally defaulting on others to escape high interest rates.

And with private-industry borrowers now mostly excluded from the tax-exempt market and interest rates well below their highs of the early Eighties, there's even less good-quality junk to go around—and more temptation to reach for higher yields. "All this junk money chasing fewer bonds meant the credit's generally declined," says Colonial's Hardie.

To judge a high-yield muni fund, first ignore yield, even though it's the whole selling point. Look at total return. Consider the American Capital Tax-Exempt Trust High Yield Portfolio, with a lush 8.5% yield. Investors actually lost 1.8% in the 12 months ending Jan. 31, as capital losses outweighed interest income.

Second, be wary of loads. Colonial charges a front-end load of up to 4.75%; Eaton Vance's fund has no front-end but charges a back-end load that starts at 6% the first year and declines by 1% per year thereafter.

Third, take a look at the fund's portfolio. Says Kurt Larson, IDS' vice president for tax-exempt mutual funds, "I'd be on the lookout for whether there are a lot of issues backed by a single-purpose building or corporation, where the revenue is just coming from one motel, nursing home or life care center." ■

Don't trust yields

These funds are the highest and lowest yielding in the Lipper high-yield category. But note the differences in their total returns.

Fund	12-month yield	Total return 1/31/87–1/31/88	Assets ($mil)
Franklin High Yield Tax-Free	9.1%	5.96%	$68.2
United Muni High Income	8.8	1.27	79.4
MFS Managed High Yield Muni*	8.6	1.86	348.4
Amer Cap Tax-Ex Tr High Yield	8.5	–1.84	154.4
MetLife State St High Inc Tax-Ex	7.4	–0.17	30.5
GIT Tax-Free Trust High Yield	7.3	0.95	39.0
Putnam Tax-Free High Yield	7.0	1.84	563.5
Fidelity High Yield Muni	7.0	–1.89	1,571.4
Lipper general muni bond fund average		0.57	

*Not open to new investors. *Source: Lipper Analytical Services*